Long-term care: Balancing funding

Robert O'Connor looks at a muted industry response to government's long-term care initiative

Summary

- The 1.25 per cent rise in National Insurance to fund long-term care is likely to raise £36 billion over three years.
- The government is yet to provide clarity as to how the increase finances will be used to improve care funding.
- The industry already offers products to help people afford long-term care, such as immediate needs annuities, insurance policies and equity release.

The government's announcement of a 1.25 percentage point increase in National Insurance contributions to help support long-term care has brought a cautious response from the pensions industry about prospects for a historically sluggish market.

The rise, which is due to take effect in April 2022, is expected to bring in £36 billion over three years. The money is to be used to relieve pressure on the NHS and to finance a planned £86,000 lifetime cap on individual long-term care contributions. But any burst of new products to help fund social care will have to await the provision of more details from the government, according to industry experts.

Just Group group communications director, Stephen Lowe, says the government needs to provide clarity on how the cap will work and what will be included within it. "The £86,000 to some extent is a mirage," Lowe says, citing Just Group's own modelling, which suggests that a care recipient could be facing an eventual outlay of as much as £300,000 before reaching a cap. More details of the government's plans, promised in October but still not delivered, could pave the way for a "multi-, multi-, multi-year journey" for both the government and the industry, he adds.

To encourage consumers to act, Lowe says, it will be necessary to move them into a position of awareness. It would be a communications failure, he adds, if people look at the increased National Insurance contributions on their pay slips from next April and conclude: "'Job done. That's all my care paid for.'"

Just Group offers what is sometimes described as an immediate-needs annuity, which takes effect if a customer is diagnosed as needing to go into a care facility. This will involve a direct payment to the care home of a sum of money that will last until the patient dies. It is designed to protect the client against a catastrophic loss of assets and is sold into what Lowe describes as "small, niche market" with annual premiums of about £150 million to £200 million. It has the advantage of not incurring income tax on the payment.

In addition to lump sum-financed immediate-needs annuities and equity release, Association of British Insurers head of long-term savings policy, Rob Yuille, says there are life insurance policies that include care cover, along with products that are not specifically for care that may have the scope for growth.

"The products are already there," Yuille says, "we might see evolutions, I suppose."

Examples, he explains, would be products that help people cover their care costs as the needs arise. These would include care fee plans and immediate-needs annuities.

Yuille says the ABI welcomed the government's announcement. But he also offered a word of caution and a call for clarity. In the view of life insurers, the weak demand for long-term care products is a by-product of poor public understanding of the potential exposures.

Uncertainty

He adds that the government's announcement will not be enough to create a new market. The industry, Yuille says, would like to see a big focus on raising public awareness. From a marketing angle, there is the uncertainty about what future care will cost and even whether care will even be needed, he adds.

"The industry's been following developments in the social care market for a very long time," Yuille says. "But so little has happened on that front that there hasn't been much to respond to. It's going to be a very long-term shift."

Tangible

PTL managing director, Richard Butcher, says long-term care "has been festering at the bottom of the in box" for a long time. "We are glad that the government has come up with some sort of tangible proposals for dealing with it."

Butcher, who sees the pensions industry as being more capable than the government at the providing of products, believes the potential market extends very widely. The affluent, he says, might opt, at extra cost, for a policy that provides a larger room or wine at dinner *[in a care home]*. As for buyer reluctance, he says, nobody wants to pay anything, "but they may decide in the end that they have an uninsurable risk".

The Association of Consulting Actuaries (ACA) welcomed the announcement of the National Insurance increase and the £86,000 cap in a statement. ACA Pensions and Savings Adequacy Group chair, Steven Taylor, called the changes "a positive set of measures to address this complex and emotive issue".

But, Taylor, who calls for better contacts between the government and the pensions industry on shaping future cover, warned in a statement, that "significant challenges remain." Among these, he said, would be a possible drop in funding in the wake of the pandemic and the heavier burden of National Insurance contributions that will fall on younger workers.

"Too many people only engage with the social care system when it is needed by an older relative and are surprised by self-financing costs," Taylor said.

Under current rules, people with assets of £23,350 must meet their full care costs.

According to Hargreaves Lansdown, about 144,000, or 36.7 per cent, of people in care homes in England in 2019/20 were self-funders. The percentage of self-funders was highest in the southeast, at 45.4 per cent. It was lowest in the northeast, at 24.6 per cent.

These "figures show the sheer scale of the number of people who are paying the astronomical costs of care," said Hargreaves Lansdown senior pensions and retirement analyst, Helen Morrissey, in a statement. "Almost 150,000 people are having to foot the bill, and homeowners, in high property value areas, are particularly affected."

Possible options, Morrissey said, include expensive equity release deals, saving up a big pot of money, and striking a deferred payment deal with the local council.

Pensions Policy Institute senior policy analyst, John Adams, says he believes any fears that the National Insurance increase could drive lower earners out of auto-enrolment will be mitigated by the requirement that they will have to specifically opt out in order to do so.

"So far we have seen that people tend to stick with it," Adams says. "For example, there were concerns about potentially large numbers of opt-outs when the *[auto-enrolment]* minimum contribution rates increased, but the levels of participation stayed relatively stable."

Attractive

While wealthier pensioners with their higher levels of disposable income are an attractive target for financial products, Adams says, care-related offerings have not tended to be among them. Adams says a shortage of care workers in the UK could increase the costs of care by driving up wages and cause people to hit their caps sooner.

In 2010, the Dilnot Commission reported a low level of public awareness about social care. The commission's investigators, Adams says, "found that people were unaware of how the system worked, with many just assuming it was part of the NHS and not realising that there was a financial responsibility until they have to interact with it either for themselves or a family member".

Pension providers seem reluctant to be drawn on whether the National Insurance rise is unfair to younger workers, who are forced to subsidise well-off pensioners. "There is an argument made that people who need the care now are not the ones being made to pay for it," Adams says. "However, it is difficult to see any funding arrangement to serve the care needs of the elderly that doesn't push the cost on to the working population."

Adams also points out that the younger people of today will eventually need care and that there would be "societal harm" if people are unable to afford care.

Butcher also notes what could be seen as intergenerational unfairness, but he also argues that it could be compared to a progressive tax system that is designed to protect the vulnerable. "There is no alternative way forward," he says.

Written by Robert O'Connor, a freelance journalist